

VZCZCXYZ0011
RR RUEHWEB

DE RUEHQT #0130/01 0331715
ZNR UUUUU ZZH
R 021713Z FEB 10
FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC 0906
INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHBO/AMEMBASSY BOGOTA
RUEHC/DEPT OF LABOR WASHINGTON DC
RUEHCV/AMEMBASSY CARACAS
RUEHGL/AMCONSUL GUAYAQUIL
RUEHLP/AMEMBASSY LA PAZ
RUEHPE/AMEMBASSY LIMA
RUEHQT/AMEMBASSY QUITO
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC

UNCLAS QUITO 000130

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [ELAB](#) [EINV](#) [EC](#)
SUBJECT: GOE BACKS OFF PROPOSED 50 PERCENT INCREASE IN MINIMUM WAGE
FOR 2010

Summary

¶1. (SBU) Ecuador's President Correa has publicly championed the idea of a "dignified wage" since taking office in 2007, and this concept is enshrined in the country's 2008 Constitution. Last year, Correa frequently called for an almost 50% increase in the minimum wage to reach his definition of a dignified salary. In the end, the administration raised the minimum wage by only 10% for ¶2010. Despite private sector claims that GoE labor policies have reduced labor flexibility and increased unemployment, the 7.9% unemployment rate in December 2009 reflects an increase in employment at year-end. End Summary.

GOE increases minimum wage by 10% for 2010

¶2. (SBU) After entering office in 2007, President Correa announced his objective of implementing labor reforms in accordance with the country's new Constitution that would, among other things, establish a "dignified wage" for all workers. In theory, the dignified wage would be sufficient to enable a family to afford Ecuador's basic consumer basket. In August 2009, Minister of Labor Richard Espinosa suggested \$320 as a dignified monthly wage based on a consumer basket cost of around \$519 and 1.6 wage earners per family, an amount publicly supported by President Correa.

¶3. (SBU) Fearing a jump of almost 50% at the end of the year from the current minimum monthly wage of \$218 to \$320, the private sector engaged in intensive consultations with the administration. Companies argued that the suggested increase in the minimum wage would have catastrophic economic consequences as businesses, especially in labor-intensive industries such as rose cultivation, and textiles and apparel, could be forced to close. (Comment: Private sector contacts in the flower and textile and apparel

industries have told EconOfs that the threat of a large wage increases had essentially brought to a halt any new investment in their sectors.)

14. (SBU) After negotiations within the National Council for Salaries on setting a new minimum wage for 2010 broke down in mid-December, Minister Espinosa announced on December 31 a 10.1% increase in the minimum monthly wage, raising it to \$240. According to Espinosa, approximately 4 percentage points of the increase were attributable to inflation, another 4 percentage points to productivity gains (although there is no entity that officially tracks productivity in Ecuador), and 2 percentage points were added to improve salary equity. The new minimum wage applies to all private sector employees, including for the first time domestic employees, artisans, and small industries and agricultural workers. The 2010 minimum wage represents a hike in salary of between 20% and 30% for these groups. The minimum wage has risen steeply over the last three years from \$170 in 2007, when Correa took office, increasing 17.6% in 2008 and 9% for 2009.

15. (SBU) Workers, who had expected a 46.8% increase for 2010, based on Correa's public references to a \$320 "dignified wage," were dissatisfied with the new minimum wage and threatened public protests. While significantly lower than the \$320 figure that had been bandied about, businesses also complained about the increase, claiming it would still harm small businesses and the agricultural

sector, which have been hit hard by previous tax and labor reforms. As a result of the pay hike, employment of domestic staff could also decline, particularly by middle class employers.

Measures adopted to reach the dignified wage

16. (SBU) As a follow-up, on January 8, Minister Espinosa announced labor code reforms the GoE will propose to the National Assembly. The reforms would provide workers with more disposable income on a monthly basis, without increasing wages. According to current Ecuadorian law, private sector workers receive as additional compensation two monthly salaries per year to cover education and Christmas season expenses. The proposed reforms would now allow employers to spread out this compensation and pay it on a monthly basis.

17. (SBU) Espinosa's proposal also appears to accept the private sector's contention that all compensation components should be considered when analyzing whether a particular wage structure actually provides a "dignified wage." For instance, Espinosa suggested the GoE's calculation of total salary might include the additional two monthly salaries, and payments to the employee's "reserve fund" (equal to another month's wages) paid out on a monthly basis. (Note, in July 2009, the National Assembly already passed a law to allow employers to pay employees directly on a monthly basis the amount previously deposited into their "reserve fund.") The eventual goal would be to set the minimum wage so that this total multiplied by 1.6 would cover the cost of the consumer basket. With the 2010 minimum wage, the total salary under this formula equals \$300. Multiplying by 1.6 wage earners per family produces a household income of \$480, \$48.90 short of the current consumer basket cost of \$528.90, as estimated by the Ecuadorian Statistics Institute (INEC) in December 2009. In the meantime, mandatory profit sharing is expected to help bridge the gap. (Current law already requires companies to distribute 15% of profits among their workers, but compliance is uneven.)

Comment

18. (SBU) Although the private sector has complained about the minimum wage increase, this is a rare instance in which the GoE appears to have taken their arguments into account when setting wages policy. Meanwhile, the GoE's minimum wage decision and new proposals have not strengthened relations with labor. Alex Gonzales, representative of the United Workers Front (FUT), an important umbrella group for organized labor, said in reacting to the GoE's new proposals that the administration's decision "to transfer money from one pocket to another, as it did with the reserve funds, is a mockery of the workers."

19. (SBU) It also may be difficult in the short-term to evaluate the employment effects of Ecuador's new minimum wage. Although INEC released an unemployment figure showing an improvement from 9.1% in September to 7.9% in December 2009, some private sector representatives have openly questioned the veracity of this improvement. Private analysts point to job cuts in a number of sectors, such as rose cultivation (7,500 jobs lost in 2009), and a reduction in commercial activity in the last two months of 2009 caused by rolling blackouts. Although the private sector has

expressed concern that any increase in Ecuador's minimum wage could damage the country's competitiveness vis-à-vis its neighbors, analysis by a well respected local economist suggests the dollar's depreciation has kept Ecuador's new minimum wage on par in real terms with those in Brazil, Venezuela, and Colombia.
HODGES